

## DEPARTMENT OF BENEFIT PAYMENTS

744 P Street, Sacramento, CA 95814



March 24, 1975

ALL-COUNTY LETTER NO. 75-66

TO: ALL COUNTY WELFARE DIRECTORS

OBSOLETE

Superseded by ACL #77-15Issued 3-17-77

SUBJECT: STATUS OF FEDERAL AUDITS

REFERENCE:

On March 13, 1975 I discussed the issue of outstanding federal audits with the Board of Directors of the County Welfare Directors Association. At that meeting I informed the Board of Directors that an All-County Letter would be prepared outlining the current outstanding audits involving county funds with the Department of Health, Education, and Welfare Audit Agency.

Listed below are the outstanding audit issues involving county funds that have an impact on a statewide basis. This listing does not include individual county audits conducted by the Department of Health, Education, and Welfare Audit Agency as they are transmitted on a county-by-county basis. It is my intention to provide an update to this report on a quarterly basis if any new issues are found or the status of existing audits are changed.

1. Food Stamp Issuance and Commodity CostsPeriod: July 1, 1966 through December 31, 1970DHEW Position: Bank charges for food stamp issuance and food commodity storage and issuance costs do not qualify for federal financial participation.State Position: The State claims these costs were factored out by a cost allocation plan submitted to and approved by SRS Regional staff.

Status: The State appeal was denied by the SRS Administrator and the State was ordered to adjust the September 30, 1974 Quarterly Report of Expenditures. A complaint for declaratory judgment and injunctive relief was filed against DHEW December 18, 1974. The Federal court dismissed the Department's lawsuit on the basis that the court did not have jurisdiction to decide the issue. The Department is currently appealing this decision in the Federal Circuit Court of Appeals. DHEW is presently identifying additional amounts for the period subsequent to December 31, 1970 with new audits.

Amount: \$3,279,520 county funds to December 30, 1970.

2. Adult Services

Period: July 1, 1968 through September 30, 1970

DHEW Position: California claimed for Adult Social Services at the 75% rate for overhead and mixed caseloads prior to the implementation of federal regulations allowing this rate.

State Position: The claiming was done with full federal knowledge and tacit approval. As federal regulations were changed October 1, 1970 retroactive claiming should have been allowed.

Status: The California appeal was denied and California was ordered to adjust the Quarterly Report of Expenditures. Negotiation extended the adjustment period to three equal installments: March, June, and September, 1975. Litigation resulted in a preliminary injunction March 7, 1975. On March 14, 1975 the Federal Circuit Court of Appeals issued a temporary stay order that will result in a minimum of a ten day delay in funds being released by HEW.

Amount: \$11,020,249

3. Income Maintenance Costs - AFDC-U

Period: July 1, 1968 through September 30, 1971

DHEW Position: DHEW claimed that county administrative costs for nonfederal AFDC-U cases did not qualify for federal financial participation. The county claims were to be changed effective October 1, 1971.

State Position: The State claimed these costs were part of an approved cost allocation plan and should be allowed. The audit exception recognized that some costs qualified for federal financial participation and asked the state to determine these costs. The county claiming format was changed under protest October 1, 1971 to factor out the nonfederal costs. The claiming format was again changed March 1, 1973 to reflect a greater percentage of federally eligible costs, namely, the costs of the eligibility determination and a request to claim retroactive for these costs was filed with SRS.

Status: The appeal was denied by the SRS Administrator. Negotiations are in process over the final amount to be adjusted.

Amount:	Total Amount of Exception	\$4,671,904
	Exception July-September 1971	<u>333,707</u>
	Gross Exception in Negotiation	\$5,005,612
	Less: Adjustment for Eligibility	
	Determinations in Audit Period	<u>2,985,352</u>
	Net Exception to be Adjusted	\$2,020,260
	County Reclaim for Period 10/71-3/73	<u>1,200,828</u>
	Net Effect on County Funds	<u>\$ 799,432</u>

4. County Data Processing and Warrant Writing Costs

Period: July 1, 1968 through September 30, 1971

DHEW Position: DHEW claimed that county EDP and warrant writing costs should not be included in the 75% FFP rate pool but restricted by direct charging to the 50% rate.

State Position: The State contended the costs were part of the approved cost allocation process. It was also claimed that direct charging only certain support costs resulted in inequity.

Status: An appeal was filed with the SRS Administrator August, 1974. No decision has been rendered.

Amount: \$1,807,173

5. A-87 Deferral

Period: January 1, 1970 through June 30, 1972

DHEW Position: The SRS review team deferred advances and finally disallowed, by administrative action, retroactive A-87 claims submitted by eight counties on the basis that the certification of the county A-87 plan was after the State cutoff date of June 30, 1972.

State Position: The State contends that SRS does not have the legal right to take what amounts to an audit exception by administrative action. Further, the action is improper because it is based on criteria developed after the period of claiming, and not supported by Federal regulations.

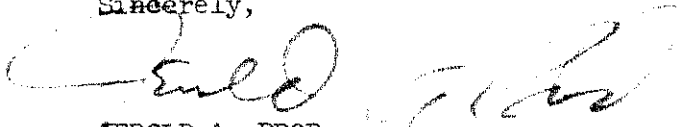
Status: DHEW has removed the federal monies from funds sent to the State but the State has not yet applied the sanction to the counties. An appeal to the SRS Administrator has been filed and litigation has been initiated in the Federal court. Counties should be aware that the Department of Benefit Payments has filed litigation on the individual issue of A-87 deferral as well as the process of deferral in general. The process of deferral could be used on separate issues by DHEW that could affect any or all counties.

Amount: \$4,133,016.88

Counties Involved: Contra Costa, El Dorado, Monterey, Sacramento, San Diego, San Luis Obispo, Sierra, Ventura.

If you have any questions on the above audits, contact Del LeClaire at 916/445-7046.

Sincerely,

  
JEROLD A. PROD  
Acting Director

cc: CWDA